

Report on the Michigan Intrastate Switched Toll Access Restructuring Mechanism

In Compliance with Public Act 179 of 1991 as Amended

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Introduction

Section 310 of the Michigan Telecommunications Act (MTA), MCL 484.2310, directs the Michigan Public Service Commission (Commission) to submit an annual report describing the operation and administration of the Michigan Intrastate Switched Toll Access Restructuring Mechanism (ARM). The MTA requires that the report include “the total amount of money collected from contributing providers, the total amount of money disbursed to each eligible provider, the costs of administration, and any other information considered relevant by the Commission.”¹ Pursuant to the MTA, company-specific information pertaining to demand data, contributions, and revenue information is exempt from public disclosure. Therefore, the report focuses on the aggregate activity of the fund. The ARM became operational on September 13, 2010 and in accordance with the MTA will provide disbursements for a total of 12 years. The total initial size of the ARM, as shown below in Figure 1, is \$17,539,756.57. This amount includes 12 months of disbursements equal to \$15,784,390.68, \$440,000 for approximated administrative costs, and \$1,315,365.89 (equal to one month of disbursements) as a cash reserve.

Figure 1
Size of the ARM

One Year of Disbursements	\$15,784,390.68
One Year Estimated Administrative Costs	\$440,000.00
Cash Reserve = One Month of Disbursements	\$1,315,365.89
Total ARM Size	\$17,539,756.57

¹ MCL 484.2310(10)

This is the second annual report to be issued on the operation of the ARM. The report details the process by which the implementation of the ARM occurred and data for the first two years of the activity of the ARM. This report also discusses intercarrier compensation reform at the federal level. The Commission has been and continues to be an active participant in the federal proceedings and will provide additional information to the Governor and Legislature as necessary.

History

Public Act 182 of 2009

Switched toll access charges are the rates that providers charge to other providers for originating or terminating toll calls on their network(s). Intrastate switched toll access charges (intrastate access charges) are part of the larger system of intercarrier compensation that providers charge to each other for originating and terminating calls on their networks. Intrastate access charges were historically under the sole jurisdiction of the states, while other components of intercarrier compensation fell under federal or joint federal-state jurisdiction. In 2009, the Michigan Legislature chose to reform intrastate access charges. These charges were originally put into place long before newer technologies such as mobile wireless and broadband/VoIP existed, and in 2009 the Legislature sought to update and modernize them for today's telecommunications marketplace.

The legislative process consisted of workgroups of interested stakeholders and included telecommunications carriers and Commission Staff. Commission Staff served an educational and informational role throughout the workgroup process while the Commission maintained a neutral position on the legislation. On December 17, 2009,

2009 PA 182 (Act 182 of 2009) became law. Act 182 of 2009 amended MCL 484.2310 of the Michigan Telecommunications Act, 1991 PA 179, MCL 484.2101 *et seq.* Act 182 of 2009 modified the rates that providers can charge for intrastate access service and created the ARM as a transition mechanism for eligible providers to recover some lost revenues while they adjusted their business plans to the new requirements.

Commission Case No. U-16183

The Commission was charged with establishing “the procedures and timelines for organizing, funding, and administering the restructuring mechanism.”² To meet that charge, the Commission issued an order on January 11, 2010, initiating the docket for Case No. U-16183 for the purpose of implementing PA 182 of 2009. In that order the Commission sought the confidential and non-confidential data needed to calculate the size of the ARM, the appropriate contribution percentage for the ARM, and informed providers of the mandatory tariff filings to meet the requirements of the amended MTA.

Pursuant to the timeline established in the amended MTA, the Commission issued an order in Case No. U-16183 on April 13, 2010. This order included the total size of the restructuring mechanism and the amounts to be disbursed to each eligible provider. Detailed information about disbursement amounts is included in the *Operation of the ARM* section of this report. On May 17, 2010, the Commission issued another order in Case No. U-16183 setting the initial contribution percentage and seeking comment on an appropriate review schedule for the contribution percentage, whether to set a minimum contribution amount, how to handle changes in the industry including new providers

² MCL 484.2310(10)

and/or mergers, and any other issues related to the appropriate administration of the ARM.

On August 8, 2010, the Commission issued an order finalizing the administrative process and the methodology for contributions to and disbursements from the ARM. The Commission adopted a contribution methodology under which a provider contributes each month based upon the preceding month's revenue information. In compliance with the timeframe established in the law, the Commission established September 13, 2010 as the operational date of the ARM. Initial contributions, as well as initial tariff filings for eligible providers, were due on September 13, 2010. Because the revised rates charged by eligible providers would not be billed until approximately one month later, the Commission directed that the first disbursements would be issued the last week of October 2010, with subsequent disbursements going out the last week of each month. The Commission also directed the Staff to continuously review the operation of the ARM to ensure sufficient funding and to notify the Commission should the contribution percentage need to be revised. The August 8, 2010 Order also included a corrected disbursement amount for one eligible provider.

One additional issue raised in Case No. U-16183 was the status of Allband Communication Cooperative (Allband). While the Commission initially included Allband as an eligible provider, it determined in the August 8, 2010 Order that Allband did not meet a strict interpretation of the definition of eligible provider. Allband filed a claim in the United States District Court for the Western District of Michigan in Civil Action No. 1:10-cv-889. The Court determined that "Allband Communications Cooperative is returned to its status as an Eligible Provider for all purposes set forth in

2009 PA 182, MCL 484.2310 as determined by the Commission in its April 13, 2010 order.” Therefore, the Commission issued an order on October 14, 2010 stating that to be “in compliance with the September 17, 2010 order of the United States District Court for the Western District of Michigan, and based solely on the direction from that Court, the Commission amends the restructuring mechanism calculation and list of eligible providers to include Allband.”³ The total size of the restructuring mechanism was modified at that time to reflect the disbursement amount for Allband, and resulted in the finalized \$17, 539,756.57 size of the ARM.

Petition for Forbearance before the FCC

On February 12, 2010, ACD Telecom, Inc.; DayStarr, LLC; Clear Rate Communications, Inc.; TC3 Telecom, Inc.; and TelNet Worldwide, Inc. filed a *Joint Petition for Declaratory Ruling that the State of Michigan's Statute 2009 PA 182 is Preempted Under Section 253 and 254 of the Communications Act* before the Federal Communications Commission (FCC).⁴ The group of competitive local exchange carriers (CLECs) argued in their filing (CLEC Petition) that Act 182 of 2009 “prohibits or has the effect of prohibiting the ability of the Petitioners, and other competitive local exchange carriers, from providing interstate and intrastate telecommunications service” and argued that the FCC should therefore preempt PA 182 of 2009. The Commission submitted comments in that proceeding on March 9, 2010 opposing federal preemption of

³ Commission Order in Case No. U-16183, October 14, 2010, page 3.

⁴ This filing is available on the FCC’s website at:
<http://fjallfoss.fcc.gov/ecfs/document/view?id=7020388619>.

Michigan's law.⁵ The FCC addressed the CLEC Petition in its *USF/ICC Transformation Order*⁶ and dismissed it as moot as a result of the reforms contained in that order.⁷

Federal Intercarrier Compensation Reform

Intercarrier compensation has historically been an implicit subsidy allowing providers in high cost areas to offer service at reasonable rates.⁸ Carriers serving higher cost areas have traditionally been able to set their intercarrier compensation rates at levels substantially higher than providers serving lower cost areas. However, as noted earlier, with the significant technological changes in the telecommunications industry there came a pressing need to make significant changes to the policies governing intercarrier compensation and universal service at both the state and federal level. Some states, such as Michigan, were able to act while the FCC was studying the issue nationally. Of those states that instituted intrastate access reform, there were a variety of different methodologies employed. For example, some states use their state universal service fund (typically funded through a direct assessment on customer bills) to offer assistance to providers in their state affected by intrastate access reform.⁹

⁵ On February 22, 2010, the FCC established a pleading cycle for the CLEC Petition setting comment deadlines for interested parties in WC Docket 10-45.

⁶ *Report and Order and Further Notice of Proposed Rulemaking* in WC Dockets 10-90, et al., FCC 11-161, adopted October 27, 2011, released November 18, 2011.

⁷ *USF/ICC Transformation Order*, ¶816; http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-11-161A1.pdf

⁸ In addition to the implicit subsidy of higher intercarrier compensation rates, service to high cost areas is also explicitly subsidized through the federal universal service fund (federal USF).

⁹ In contrast, Michigan does not currently have a state universal service fund. Therefore, as described in detail above, PA 182 of 2009 established the separate Access Restructuring Mechanism to aid eligible providers in the transition to reduced intrastate access rates. Rather than a direct assessment on customers, providers are assessed for the ARM and each provider determines individually whether to pass that cost on to their customers.

As described in last year's report, after continued pressure from many stakeholders, the FCC formally recognized that reform of the federal universal service and intercarrier compensation systems was overdue. With a renewed commitment to enacting reform, the FCC released a Notice of Proposed Rulemaking in early 2011 addressing these two topics. In keeping with the Commission's long-standing tradition of participation in FCC proceedings that may affect Michigan, the Commission filed a series of comments with the FCC responding to the Notice of Proposed Rulemaking.¹⁰ At its October 27, 2011 meeting, the FCC adopted the *USF/ICC Transformation Order* comprehensively reforming the federal universal service fund and intercarrier compensation. The FCC did not release the text of this order until November 18, 2011, and as the order was over seven hundred pages long, a thorough analysis of the *USF/ICC Transformation Order* was not available for inclusion in last year's report.

The Commission has now been able to more fully analyze the *USF/ICC Transformation Order* and determine much of its impact on Michigan's switched access reform. The FCC adopted a uniform national bill-and-keep framework as the ultimate end state for all telecommunications traffic exchanged with a local exchange carrier. Bill-and-keep is the process by which providers cover the costs of the network through a combination of end-user rates and explicit universal service support where necessary. Under a bill-and-keep framework all intercarrier compensation charges, including those charged for intrastate access, will be phased out. The FCC capped the rates for most intercarrier compensation charges and laid out a transition path reducing certain

¹⁰ See comments filed with the FCC in WC Docket 10-90 on April 1, 2011, April 18, 2011, May 23, 2011, August 24, 2011, and September 6, 2011 at <http://www.dleg.state.mi.us/mpsc/orders/fcc/>.

intercarrier compensation rates to zero.¹¹ The FCC also adopted a recovery mechanism to provide limited recovery to providers for their reduced intercarrier compensation revenues. The FCC did not, however, preempt state intrastate access reform laws to the extent that they are consistent with the FCC's reforms. The FCC specifically stated that "[t]o the extent states have established rate reduction transitions for rate elements not reduced in this Order, nothing in the Order impacts such transitions...Nor does this Order prevent states from reducing rates on a faster transition..."¹²

On January 12, 2012, the Commission opened a docket, Case No. U-16943, to take comments from interested parties on whether/how Michigan's access reform or the operation of the ARM would need to be modified to be compliant with the *USF/ICC Transformation Order*. After receiving comments and reply comments the Commission issued an order on April 17, 2012 finding that no immediate modifications to the operation of the ARM were necessary and that there was no double recovery resulting from the FCC's recovery mechanisms. The Commission found that the required January 1, 2012 tariff filings showing rate reductions of 40% of the differential between intra- and interstate rates described in the MTA was not inconsistent with the FCC reform and ordered all providers who had not yet made such filings to do so. The Commission further found that the **originating** intrastate access reforms described in PA 182 of 2009 were not affected by the *USF/ICC Transformation Order*. The Commission found that there did need to be some modification to the future **terminating** intrastate access

¹¹The FCC's transition path addresses terminating switched access (terminating switched toll traffic) and reciprocal compensation (local traffic), but not originating switched access (originating switched toll traffic) or special access (non-switched traffic). In the order, the FCC requested comments on how to address originating access and to-date has not issued any further orders on that topic. The FCC is also studying the current state of special access charges in a separate proceeding. The Commission continues to participate in and monitor all FCC proceedings related to intercarrier compensation reform.

¹² *USF/ICC Transformation Order*, footnote 1542.

reforms described in PA 182 of 2009 in order to be compliant with the FCC's reforms. As of July 1, 2012, the Commission noted that all non-eligible providers¹³ must reduce the disparity between their intra- and interstate terminating access rates in effect on December 29, 2011 by 50%, as required by the *USF/ICC Transformation Order*. From that date forward, the transition path for terminating intrastate access rates contained in the *USF/ICC Transformation Order* would supersede the transition described in PA 182 of 2009. Figure 2 shows the transition path in effect for Michigan providers for intrastate switched access.¹⁴

¹³ Excluding the two large Michigan ILECs, AT&T Michigan and Frontier, due to the fact that these companies already have intrastate access rates at parity with their interstate access rates.

¹⁴ The chart only shows switched access changes and any differentials mentioned are the differentials in the intra- and interstate rates in effect at the times specified in either PA 182 of 2009 or the *USF/ICC Transformation Order*. Please note that all providers (eligible and non-eligible) must also comply with reductions to reciprocal compensation rates. These reciprocal compensation rate reductions/tariff filings are not described in detail in this report as the focus of this report is the ARM and intrastate switched access reform.

Figure 2
Michigan and FCC Switched Access Transition

Date	Eligible Providers	Non-Eligible Providers	
		CLECs	ILECs
9/13/2010	Originating and terminating intrastate access rates must be no higher than corresponding interstate rates	<i>no action required</i>	<i>no action required</i>
1/1/2011	<i>no action required</i>	Reduce differential between the July 1, 2009 originating and terminating intra- and interstate rates by 20%	<i>no action required</i>
1/1/2012	<i>no action required</i>	Reduce differential between the July 1, 2009 originating and terminating intra- and interstate rates by 40%	<i>no action required</i>
7/3/2012	<i>no action required</i>	Reduce the differential between the Dec. 29, 2011 intra- and interstate terminating rates by 50%.	<i>no action required</i>
1/1/2013	<i>no action required</i>	Reduce differential between the July 1, 2009 originating intra- and interstate rates by 60%	<i>no action required</i>
7/1/2013	<i>no action required</i>	Terminating intrastate access rates must be no higher than corresponding interstate rates	<i>no action required</i>
1/1/2014	<i>no action required</i>	Reduce differential between the July 1, 2009 originating intra- and interstate rates by 80%	<i>no action required</i>
7/1/2014	Reduce differential between terminating access rates and either \$0.0007 (price cap carriers) or \$0.005 (rate of return carriers) by one-third.	Reduce differential between terminating access rates and either \$0.0007 (price cap carriers) or \$0.005 (rate of return carriers) by one-third.	Reduce differential between terminating access rates and either \$0.0007 (price cap carriers) or \$0.005 (rate of return carriers) by one-third.
1/1/2015	<i>no action required</i>	Originating intrastate access rates must be no higher than corresponding interstate rates	<i>no action required</i>
7/1/2015, 07/1/2016,... 07/01/2020	Continue to follow transition path described in the <i>USF/ICC Transformation Order</i>	Continue to follow transition path described in the <i>USF/ICC Transformation Order</i>	Continue to follow transition path described in the <i>USF/ICC Transformation Order</i>

Intrastate Access Tariff Revisions

Prior to Act 182 of 2009, providers with over 250,000 access lines were required to set their intrastate switched toll access service rates at levels no higher than the corresponding interstate rates. Act 182 of 2009 expanded that requirement to include all providers in Michigan. Act 182 of 2009 set two separate transition paths toward this new requirement based upon whether a provider is considered eligible or non-eligible under the Act. Act 182 of 2009 requires that intrastate switched toll access tariffs that reflect the required rate reductions be filed with the Commission for review and approval.¹⁵

As noted, the FCC's *USF/ICC Transformation Order* significantly reformed intercarrier compensation, including switched access. As explained above, Michigan's access reform largely aligns with the FCC's reform, but the differences between the two do create some challenges. For example, PA 182 of 2009 addressed both originating and terminating switched access charges, whereas the *USF/ICC Transformation Order* only reforms the terminating charges related to switched access charges. The challenge here lies in the fact that many providers in Michigan, especially non-eligible providers, do not have separate originating and terminating access rates. Thus, those providers may have extra work to do in order to ensure that their tariffed rates meet both the MTA's requirements and the FCC requirements. An additional challenge is that PA 182 of 2009 split providers into two categories, eligible vs. non-eligible, while the FCC chose to split providers by a different set of categories, price cap vs. rate of return. The Michigan and FCC categories do not overlap cleanly. That is, some non-eligible providers must follow

¹⁵ Section 202(b) of the MTA which allows providers to opt out of filing certain tariffs with the Commission specifically excludes access tariffs from being opted out of. All providers continue to be required to file intrastate access tariffs if they are providing that service.

the FCC's price cap transition track, while some non-eligible providers will follow the rate of return transition track. Again, this adds a complexity to the tariff filings.

This report uses the PA 182 of 2009 distinction between providers for consistency with last year's report. The two transition paths in Michigan law are described below. The description includes information about the tariff filings required by the MTA as well as those required by the *USF/ICC Transformation Order*.

Eligible Providers

Act 182 of 2009 effectively defined eligible providers as incumbent local exchange carriers (ILECs) with less than 250,000 access lines. Act 182 of 2009 required eligible providers to set their intrastate switched toll access rates no higher than their corresponding interstate rates effective September 13, 2010. By September 13, 2010, all eligible providers filed revised tariffs reflecting the new intrastate access rates, the Commission Staff reviewed and approved these tariffs as in compliance with the MTA and the Commission's orders in Case No. U-16183. These providers have continued to maintain intrastate switched toll access tariffs that are in compliance with the law by revising these tariffs as necessary to reflect changes in their corresponding interstate tariffs.¹⁶

As a result of the FCC's reform of intercarrier compensation, eligible providers are required to make additional switched access rate reductions not described in the MTA.¹⁷ The first of these switched access rate reductions that will require intrastate tariff revisions in Michigan will occur in July 2014. Many eligible providers have also

¹⁶ For example, many of these providers use the National Exchange Carriers Association interstate tariff, the rates in which are updated each July 1st, and filed the appropriate revised intrastate tariffed rates with a July 1, 2011 effective date.

¹⁷ The rate reductions are discussed in further detail in the USF/ICC Reform section of this report.

moved to an exceptions-based intrastate switched access tariff due largely, but not necessarily solely, to the reforms in Michigan and at the national level. Under this type of tariff, a provider's intrastate tariff includes language stating that it uses its interstate rates and terms for intrastate services with limited exceptions. Such a tariff ensures that changes that occur in the interstate access tariff are immediately reflected in the intrastate tariff. Therefore, while some providers may need to file revised tariffs at the dates required by the USF/ICC Transformation Order, those that use an exceptions-based tariff will largely avoid having to make intrastate switched access tariff revisions.

Eligible providers' intrastate switched toll access tariffs and reciprocal compensation tariffs are made available to the public by the providers and most are also accessible online via links from the Commission's Online Tariff Index.¹⁸

Other (Non-Eligible) Providers

Pursuant to the MTA, non-eligible providers are required to reduce their intrastate access rates in no more than five steps, each a reduction of at least 20 percent of the differential between intrastate and interstate rates, on the following dates: January 1, 2011; January 1, 2012; January 1, 2013; January 1, 2014; and January 1, 2015. Non-eligible providers are effectively CLECs.¹⁹ The first revised tariff filings for non-eligible providers were made on or around January 1, 2011 and, pursuant to the MTA, reflected a reduction of at least 20 percent of the differential between the intra- and interstate rates in effect as of July 1, 2009. The second revised tariff filings for non-eligible providers were made late in December 2011 or early in January 2012. These

¹⁸ [Commission Online Tariff Index](#)

¹⁹ Michigan's largest two incumbent providers are also technically non-eligible providers, however as noted above, these two companies were already required to set intrastate access rates no higher than corresponding interstate rates.

tariffs reflect a January 1, 2012 effective date and at least a 40% reduction in the differential described in the MTA.²⁰

The USF/ICC Transformation Order overrides certain aspects of PA 182 of 2009. Effective July 3, 2012, the rate transition for reducing the differential between intrastate and interstate **terminating** switched access charges began to be faster than the transition described in the MTA. Therefore, as of that date, providers must follow the FCC's transition path for **terminating** switched access rates. In compliance with that requirement, non-eligible providers were required to file intrastate switched access tariff revisions reflecting the 50% differential reduction for **terminating** rates described in the USF/ICC Transformation Order to be effective no later than July 3, 2012. The majority of non-eligible providers complied with this requirement. The Commission continues to work diligently to identify and bring into compliance all outstanding providers and in doing so, requires any such providers to back-date their tariff revision to be effective no later than July 3, 2012.

Providers must continue to reduce the differential between their **originating** intra- and interstate rates as described in the MTA. Accordingly, the next intrastate tariff revisions for non-eligible providers should be filed with an effective date of January 1, 2013 and should reflect the required reduction in **originating** access rates. Non-eligible providers' intrastate switched toll access tariffs and reciprocal compensation tariffs are

²⁰ As noted in last year's report, determining whether the 20 or 40% differential was met was difficult. Intrastate switched access rates are actually comprised of multiple rate elements. Providers do not necessarily use the same rate elements and/or offer the same services in both the intra- and interstate jurisdictions. Additionally, some providers charge only a composite rate while others charge based upon the various elements. Again, this may not be consistent across intra- and interstate jurisdictions even within a single company.

required to be available to the public and most can be found via links from the Commission's Online Tariff Index.

Operation of the ARM

Disbursements

In order to aid the transition to lowered intrastate access rates, the MTA established and the Commission began operation of the Access Restructuring Mechanism. Eligible providers are entitled to receive monthly disbursements from the ARM to recover lost intrastate switched toll access service revenues resulting from rate reductions. All eligible providers have completed the necessary registration process with the State of Michigan enabling the State to issue the ARM distributions.

To establish the size of the ARM, Act 182 of 2009 directed eligible providers to provide information to the Commission within 60 days from the effective date of the Act.²¹ All eligible providers were required to submit 2008 intrastate switched toll access demand data and the corresponding current rate information. This information allowed Commission Staff to calculate the amount of the reduction in annual intrastate switched toll access revenues that would result from the required reduction in rates. The reduction was calculated for each provider as the difference between intrastate and interstate switched toll access service rates in effect as of July 1, 2009, multiplied by the intrastate switched access minutes of use and other switched access demand quantities for 2008.

As a result, each eligible provider has its own monthly disbursement that remains unchanged until the first resizing of the ARM. Pursuant to the MTA, the Commission will recalculate disbursement amounts for eligible providers after four years of operation

²¹ MCL 484.2310(11)(a)

of the fund, and then again after eight years.²² The first disbursements were issued during the last week of October 2010, with succeeding disbursements being issued the last week of each month. Figure 3, following, shows the monthly disbursement amounts in effect for each eligible provider for the time period covered by this report, as well as the resulting total year disbursements for each provider. The disbursements remained the same through the fiscal year. One change, however, is that Drenthe Telephone Company has been acquired by Allendale Telephone Company.

²² MCL 484.2310(16)

**Figure 3
Eligible Provider Disbursements**

Eligible Provider	Monthly Disbursement	Total Disbursements Oct. 2011 - Sept. 2012
Ace Telephone Company (Ace)	\$34,844.51	\$418,134.12
Ace Telephone Company (Peninsula)	\$4,158.13	\$49,897.56
Allband Communications Cooperative	\$505.11	\$6,061.32
Allendale Telephone Company	\$38,778.82	\$465,345.84
Allendale Telephone Company (Drenthe)	\$2,771.37	\$33,256.44
Baraga Telephone Company	\$15,738.06	\$188,856.72
Barry County Telephone Company	\$39,986.08	\$479,832.96
Blanchard Telephone Company	\$4,138.24	\$49,658.88
Bloomington Telephone Company	\$13,909.96	\$166,919.52
Carr Telephone Company	\$8,438.22	\$101,258.64
CenturyTel Midwest-MI, Inc.	\$188,672.43	\$2,264,069.16
CenturyTel of Michigan	\$406,633.15	\$4,879,597.80
CenturyTel of Northern Michigan	\$17,185.17	\$206,222.04
CenturyTel of Upper Michigan	\$93,081.04	\$1,116,972.48
Chapin Telephone Company	\$3,421.00	\$41,052.00
Chatham Telephone Company (TDS Telecom)	\$23,553.99	\$282,647.88
Chippewa County Telephone Company	\$6,535.00	\$78,420.00
Climax Telephone Company	\$2,018.47	\$24,221.64
Communications Corporation of Michigan (TDS Telecom)	\$18,765.76	\$225,189.12
Deerfield Farmers' Telephone Company	\$11,652.23	\$139,826.76
Frontier Communications of Michigan	\$109,614.02	\$1,315,368.24
Hiawatha Telephone Company	\$30,023.38	\$360,280.56
Island Telephone Company (TDS Telecom)	\$3,583.77	\$43,005.24
Kaleva Telephone Company	\$12,650.87	\$151,810.44
Lennon Telephone Company	\$10,100.58	\$121,206.96
Michigan Central Broadband Company	\$10,281.57	\$123,378.84
Midway Telephone Company	\$4,054.04	\$48,648.48
Ogden Telephone Company	\$2,434.73	\$29,216.76
Ontonagon Telephone Company	\$16,353.51	\$196,242.12
Pigeon Telephone Company	\$13,376.16	\$160,513.92
Sand Creek Telephone Company	\$5,852.92	\$70,235.04
Shiawassee Telephone Company	\$30,127.72	\$361,532.64
Springport Telephone Company	\$14,417.84	\$173,014.08
Upper Peninsula Telephone Company	\$15,777.08	\$189,324.96
Waldron Telephone Company	\$2,130.26	\$25,563.12
Westphalia Telephone Company	\$23,516.25	\$282,195.00
Winn Telephone Company	\$3,012.65	\$36,151.80
Wolverine Telephone Company (TDS Telecom)	\$73,271.80	\$879,261.60
TOTALS	\$1,315,365.89	\$15,784,390.68

Contributions

The ARM is sustained by a “mandatory monthly contribution by all providers of retail intrastate telecommunications services and all providers of commercial mobile service.”²³ Providers are required to pay into the ARM based upon a percentage of their intrastate retail telecommunications services revenues. Each month contributing providers are to multiply monthly retail intrastate telecommunications services revenues by the contribution factor to determine their monthly contribution into the ARM fund. The Commission has an [online form](#) available that providers are required to use for this calculation and submit with each contribution.

In order to determine the initial percentage for the monthly contribution, Act 182 of 2009 required providers to report their 2008 retail intrastate revenues to the Commission within 60 days of the effective date of the Act. The Commission found that the total of all providers’ 2008 retail intrastate telecommunications services revenues was \$4,190,942,420.15.²⁴ To determine the initial contribution percentage, the total size of the ARM²⁵ was divided by the total 2008 retail intrastate revenues as reported. This calculation resulted in the initial contribution percentage of 0.431 percent.

²³ MCL 484.2310(12)

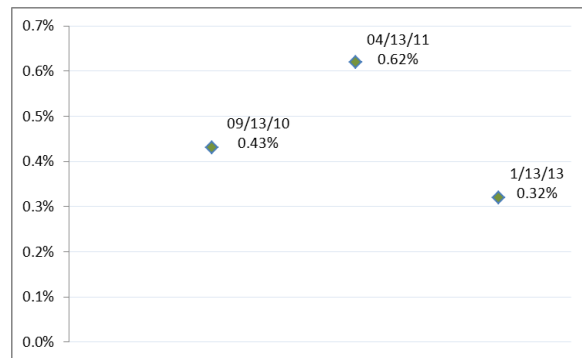
²⁴ U-16183, Commission Order dated May 17, 2010, Page 2

²⁵ As noted earlier, the total size of the ARM is equal to 12 months of disbursements, plus approximate administrative costs and a cash reserve equal to one month of disbursements.

Pursuant to the amended MTA, “[t]he commission may increase or decrease the contribution assessment on a quarterly or other basis as necessary to maintain sufficient funds for disbursements.”²⁶ After the first four full months of operation of the fund, the Commission determined that the contributions paid into the fund were not sufficient to cover the expenses of the fund, including disbursements, the one month cash reserve, and estimated administrative costs. The Commission recalculated the contribution factor, increasing it to 0.620 percent in its February 8, 2011 Order in Case No. U-16183. The revised contribution percentage was in

place for contributions due on April 13, 2011. Given the constantly changing telecommunications market, regular review of the contribution percentage is necessary. In fact, in October 2012, the

Figure 4
Effective Dates of Contribution Percentages



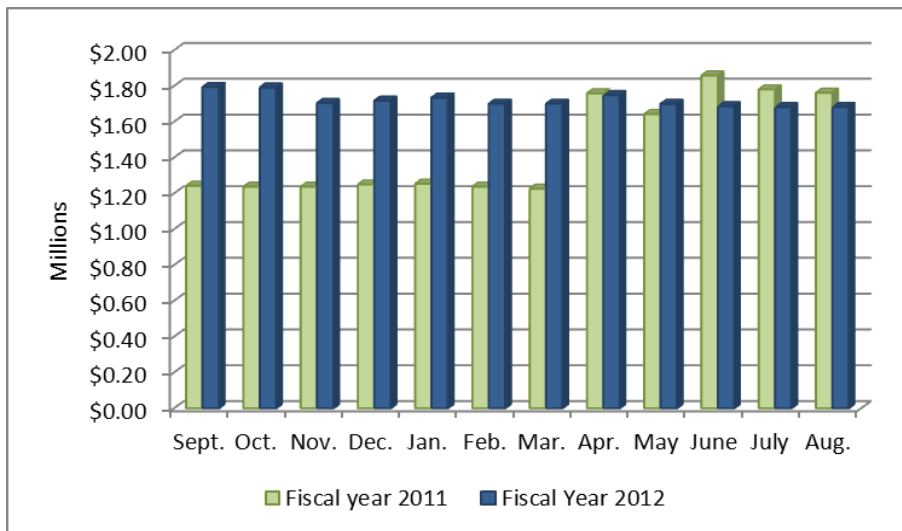
Commission found that due to increased contributions the ARM was over-collecting and carrying a fairly large balance. The Commission issued an Order in Case No. U-16183 on October 31, 2012 reducing the contribution percentage to 0.32%. The new contribution percentage will reduce the excess balance in the fund over approximately one year while still ensuring sufficient funds for disbursements and administrative costs. The new contribution percentage will be in effect for the contributions due January 13, 2013, as shown in Figure 4. The Commission will continue to monitor the ARM and modify the contribution percentage as necessary.

As discussed previously, providers contribute based on retail intrastate telecommunications services revenues, exclusive of VoIP revenues. The range of

²⁶ MCL 484.2310(14)

contributing providers includes ILECs, licensed CLECs, mobile wireless providers and other types of providers.²⁷ The total amount of contributions to the ARM for the first year of operation was approximately \$17.5 million.²⁸ Contributions for the second year of operation totaled approximately \$20.6 million, an increase over the first year of operation.²⁹ See Figure 5 for a comparison of the contributions received each month.

Figure 5
Total Monthly Contributions



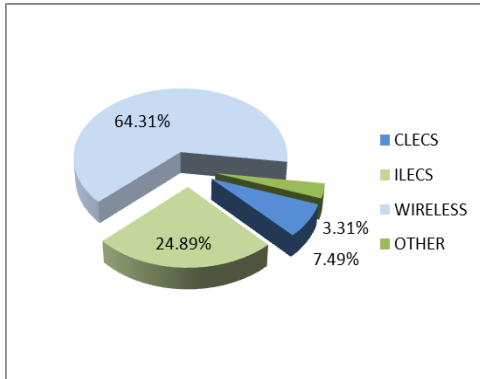
As shown in Figure 6, mobile wireless provider contributions represented 64 percent of the revenue coming into the ARM during the second year of operation. ILEC contributions represent approximately 25 percent of revenues, CLEC contributions total 7.5 percent, and the remaining 3 percent of contributions come from other types of providers. These numbers are very similar to the breakdown by provider type for last year.

²⁷ Other types of providers include operator service providers, interexchange carriers, payphone providers, competitive access providers and toll resellers.

²⁸ Data represents contributions from September 13, 2010 – August 31, 2011

²⁹ Data represents contributions from September 1, 2011 – August 31, 2012

Figure 6
Percent of Total Contributions by
Provider Type for Year 2



The Commission continues to work diligently through website updates, the CLEC licensing process, the ITSP registration process, and other direct communications efforts to ensure all providers are aware of the requirements of the ARM. This has resulted in an increased number of providers contributing

each month, as shown in Figure 7. The Commission continues to monitor the providers that are and are not contributing to the ARM to confirm that all providers operating in Michigan are in compliance with the ARM requirements.

Figure 7
Number of Contributing Providers by Month

Month	Fiscal Year 2011	Fiscal Year 2012
September	199	241
October	209	243
November	209	238
December	207	244
January	216	244
February	219	240
March	215	240
April	218	235
May	217	237
June	221	238
July	229	241
August	229	238

Administrative Costs

Pursuant to the MTA, “[t]he commission shall recover its actual costs of administering the restructuring mechanism from assessments collected for the operation

of the restructuring mechanism.”³⁰ The Commission has established a section within the Telecommunications Division to administer the ARM. The Access Restructuring Fund Administration Section was officially established in January 2011 and at that time administrative costs began to be recovered from the ARM. The Access Restructuring Fund Administration Section was not fully staffed until May 2011. The total first year administrative costs through the end of September 2011 were \$194,943.73.

The Access Restructuring Fund Administration Section was fully staffed for the second year of operation. The amount of Administrative costs has increased as expected because of this factor. The yearly Administrative costs for the period October 2011 through September 2012 is \$347,374.75; yielding a monthly average of \$28,947.90 to account for in the administering of the fund. It is anticipated that the administrative costs for year three of the fund will be moderately higher than this past year due to recent compensation level changes for employees, although this increase will not approach the magnitude of the increase from year one to year two.

Conclusion

To date, the Commission has implemented the requirements of the 2009 amendments to Section 310 of the MTA. The ARM is operational and receives contributions from required providers and disburses to eligible providers on a monthly basis. As described in this report, the total contributions to the ARM for the second year of operation were approximately \$20.6 million, sufficient to cover the approximately \$15.8 million in disbursements, the actual administrative costs of approximately \$347,374.75, and maintain the required cash reserve.

³⁰ MTA Section 310(9)

The Access Restructuring Mechanism Administration Section continues to monitor the fund, as well as any reforms and regulations that may affect its operation. The Commission Staff has worked diligently to ensure that the ARM is in compliance with FCC reforms, and will continue to monitor tariff filings, contributions and disbursements for continued compliance as well. As the ARM moves into its third year of operation, the Commission will continue to monitor the contribution percentage to confirm that providers are contributing sufficient resources to the fund. Economic factors that influence the contribution factor include, but are not limited to: increase or decline in intrastate retail revenues from contributing providers, costs of operating the ARM, and changes to intercarrier compensation at the federal level. The Commission will notify the Legislature should large structural changes to the ARM become necessary as a result of FCC action.